

Final Decision

**APA Victorian Transmission System
(VTS)**

Access Arrangement 2023 to 2027
(1 January 2023 to 31 December 2027)

Attachment 7
Corporate income tax

December 2022

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Note

This attachment forms part of the AER’s final decision on the access arrangement that will apply to APA’s Victorian Transmission System (VTS) for the 2023–27 access arrangement period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following documents:

Overview

Attachment 2 – Capital base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Operating expenditure incentive mechanism

Attachment 10 – Reference tariff variation mechanism

Attachment 12 – Demand

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7 Corporate income tax

Our determination of the total revenue for APA’s Victorian Transmission System (VTS) includes the estimated cost of corporate income tax for the 2023–27 access arrangement period (2023–27 period).¹ Under the post-tax framework, a corporate income tax amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM). This amount allows APA to recover the estimated cost of corporate income tax for the 2023–27 period.

This attachment presents our assessment of APA’s proposed corporate income tax amount for the 2023–27 period. It also presents our assessment of the proposed opening tax asset base (TAB), and the standard and remaining tax asset lives as at 1 January 2023 used to estimate tax depreciation for the purpose of calculating tax expenses.

7.1 Final decision

Our final decision on APA’s estimated cost of corporate income tax is zero over the 2023–27 period. This is consistent with APA’s revised proposal and our draft decision.

We expect APA to incur a forecast tax loss over the 2023–27 period.² We have determined that \$76.9 million in tax losses as at 31 December 2027 will be carried forward to the 2028–32 access arrangement period where it can be used to offset future tax liabilities. The forecast tax losses arise because APA’s forecast tax expenses will exceed its revenues for tax assessment purposes over the 2023–27 period. This is mostly due to the implementation of our findings from the 2018 *Review of the regulatory tax approach*, where the introduction of immediate expensing of capital expenditure (capex) and diminishing value method of tax depreciation have resulted in a significant increase of forecast tax depreciation.³

For this final decision, we accept APA’s revised proposed opening TAB value as at 1 January 2023 of \$460.3 million (\$ nominal).

In the draft decision, we accepted:⁴

- APA’s proposed method for calculating the opening TAB value as at 1 January 2023, but amended the proposed value of 2017 actual capex to bring it in line with the audited 2017 regulatory accounts data, and the 2021 and 2022 as commissioned capex values based on our draft decision capex assessment. We noted that the opening TAB may be updated to reflect any revised 2022 capex estimate as part of the final decision.
- APA’s proposed standard tax asset lives for all of its existing asset classes. We also accepted the proposed standard tax asset life for the new ‘Integrity inspections’ asset class.

¹ NGR, r. 76(c).

² A forecast tax loss occurs when the forecast assessable income is lower than the forecast tax expense. In this event no tax is payable. Any residual amount of tax loss will be carried forward over to future access arrangement periods to offset future taxable income until the tax loss is fully exhausted.

³ The third key finding from the 2018 tax review relates to capping tax lives for gas assets to 20 years.

⁴ AER, *Draft decision, APA VTS access arrangement 2023-27 - Attachment 7, Corporate income tax*, June 2022, pp. 5–7.

- APA’s proposed use of the weighted average remaining lives method to estimate forecast tax depreciation for existing assets, and the use of diminishing value method to estimate forecast tax depreciation for new assets.
- APA’s proposed method of forecasting its immediate expensing of its capex over the 2023–27 period, but we amended the proposed amount of immediately expensed capex based on our draft decision capex assessment.

Our draft decision relabelled the existing ‘Other’ asset class to ‘Other – short life’ for the 2023–27 period. This change does not affect the remaining tax asset life for this asset class, as calculated in the RFM. We also created a new ‘Other – long life’ asset class for depreciating assets allocated to this class. These changes better distinguished the different asset lives assigned to the two asset classes.

APA’s revised proposal adopted all our draft decision amendments, but it adjusted the forecast immediate expensing amounts in line with its revised capex.⁵ It also updated the 2021 and 2022 estimate of capex based on the latest available information.⁶ We accept APA’s revised value of estimated 2022 capex based our capex assessment. The details of our assessment are set out in attachment 5 of this final decision.⁷

Our final decision confirms our acceptance of APA’s approach to forecasting its cost of corporate income tax for the 2023–27 period as set out in the PTRM.

Consistent with our draft decision, we are satisfied that APA’s proposed approach for determining the forecast immediate expensing of its capex over the 2023–27 period is reasonable. We accept APA’s proposal to include all forecast capex for the ‘Integrity inspections’ and the majority of capex for the ‘Other – short life’ and ‘Other – long life’ asset classes to be immediately expensed for tax purposes over the 2023–27 period.⁸ As discussed in attachment 5, we have reduced APA’s proposed forecast capex of \$101.8 million (\$2022) for projects allocated to these asset classes by \$25.5 million (\$2022). Therefore, our final decision is to make a corresponding reduction to APA’s revised proposed amount of forecast immediate expensing capex to \$76.2 million (\$2022) for the 2023–27 period. We will continue to collect actual data relating to this expenditure in our annual reporting regulatory information notice (RIN) to further inform our decision on the amount of forecast immediate expensing of capex in the next review for APA.

Based on the above, and our final decision adjustments to the return on capital (Attachments 2, 3 and 5), opex (Attachment 8), and regulatory depreciation (Attachment 4) building blocks,⁹ our final decision determined an estimated cost of corporate income tax of zero over the 2023–27 period for APA.

⁵ APA, VTS - *Transmission Roll Forward Model*, 14 January 2022.

⁶ APA, *APA VTS Revised proposal, Roll Forward Model*, 10 August 2022. APA also re-allocated \$0.2 million of 2021 as commissioned capex from the ‘Coty Gates & Field Reg’ asset class to ‘Other’ and ‘Building’ asset classes. This re-allocation have no dollar impact on the total value of 2021 as commissioned capex and the value of the opening TAB as at 1 January 2023.

⁷ See section 5.1.1 of attachment 5 of this final decision.

⁸ AER, *Draft Decision, APA Victorian Transmission System (VTS), Access Arrangement 2023 to 2027 (1 January 2023 to 31 December 2027)*, Attachment 7, *Corporate income tax*, June 2022, p. 15.

⁹ The return on capital, opex and return of capital building blocks affect revenues, which in turn impacts the cost of corporate income tax calculation

Opening tax asset base as at 1 July 2022

For our final decision, we accept APA’s revised proposed opening TAB value as at 1 January 2023 of \$460.3 million (\$nominal).

In our draft decision, we accepted APA’s proposed method to establish the opening TAB as at 1 January 2023 but amended the proposed value of 2017 actual capex to bring it in line with the audited 2017 regulatory accounts data, and the 2021 and 2022 as commissioned capex values based on our draft decision capex assessment. We noted that the opening TAB may be updated to reflect any revised 2022 capex estimate as part of the final decision.¹⁰ Our draft decision also assigned a standard tax asset life of 7.5 years for the new ‘Other – short life’ asset class and a 15 year standard tax asset life for the new ‘Other – long life’ asset class.

APA’s revised proposal adopted all the amendments we made to the opening TAB value. It also updated the 2021 and 2022 estimate of capex based on the latest available information.¹¹ We accept APA’s revised value of estimated 2022 capex based our capex assessment. The details of our assessment are set out in attachment 5 of this final decision.¹² We will update the 2022 estimated capex for actuals at the next access arrangement review.

Table 7.1 sets out our final decision on the roll forward of APA’s TAB values over the 2018–22 period.

Table 7.1 AER’S final decision on APA VTS’s TAB roll forward for the 2018–22 access arrangement period

	2018	2019	2020	2021 ^a	2022 ^a
Opening TAB	498.8	494.0	478.5	469.2	474.2
Capital expenditure ^b	28.6	20.2	27.9	44.7	29.4
Less: Tax depreciation	33.5	35.7	37.1	39.7	43.3
Final year asset adjustment	494.0	478.5	469.2	474.2	460.3

Source: AER analysis.

(a) Based on estimated capex.

(b) As-commissioned, net of disposals.

Standard and remaining tax asset lives

For this final decision, we accept APA’s revised proposed standard and remaining tax asset lives for all of its asset classes. Consistent with our draft decision, we confirm our position that the standard asset lives are broadly consistent with the values prescribed by the Commissioner for taxation in ATO ruling 2022/1 and the Income Tax Assessment Act

¹⁰ AER, *Draft decision, APA VTS access arrangement 2023-27 - Attachment 7, Corporate income tax*, June 2022, p. 17

¹¹ APA, *APA VTS Revised proposal, Roll Forward Model*, 10 August 2022. APA also re-allocated \$0.2 million of 2021 as commissioned capex from the ‘Coty Gates & Field Reg’ asset class to ‘Other’ and ‘Building’ asset classes. This re-allocation have no dollar impact on the total value of 2021 as commissioned capex and the value of the opening TAB as at 1 January 2023.

¹² See section 5.1.1 of attachment 5 of this final decision.

(ITAA).¹³ We also confirm our position to accept APA’s proposal to use the standard approach set out in the RFM to calculate the remaining tax asset lives.

Table 7.2 sets out our final decision on the standard and remaining tax asset lives for APA. We are satisfied that the standard and remaining tax asset lives are appropriate for application over the 2023–27 period. We are also satisfied that the standard and remaining tax asset lives provide an estimate of the tax depreciation amount that would be consistent with the tax expenses used to estimate the annual taxable income for a benchmark efficient service provider.¹⁴

Table 7.2 AER’s final decision on APA’s standard and remaining tax asset lives as at 1 January 2023 (years)

Asset class	Standard tax asset life ^a	Remaining tax asset life ^b
Pipelines	20.0	14.5
Compressors	20.0	11.2
City gates & field regulators	20.0	11.8
Odourant plant	20.0	8.0
Gas quality	20.0	18.5
Other - short life	7.5	5.7
General building	60.0	52.9
General land	n/a	n/a
Integrity inspections	n/a	n/a
Other - long life	15.0	n/a
Equity raising costs ^c	n/a	n/a

Source: AER analysis.

- (a) All new assets use the diminishing value method of tax depreciation.
 - (b) Used for straight-line method of tax depreciation for existing assets.
 - (c) For this final decision, the forecast capex determined for APA does not meet a level to trigger any benchmark equity raising costs
- n/a Not applicable. We have not assigned a standard tax asset life and remaining tax asset life to some asset classes because all forecast capex are immediately expensed or because the assets allocated to them are non-depreciating assets.

7.2 Assessment approach

We did not change our assessment approach for the cost of corporate income tax from our draft decision. Attachment 7 (section 7.3) of our draft decision details that approach.¹⁵

¹³ ATO, *Taxation Ruling TR2022/1 – Income tax: effective life of depreciating assets (applicable from 1 July 2022)*. p. 179. They are also consistent with the statutory cap on the effective life of 20 years for gas pipeline assets under the ITAA.

¹⁴ NGR, r. 87A(1).

¹⁵ AER, *Draft Decision, APA Victorian Transmission System (VTS), Access Arrangement 2023 to 2027 (1 January 2023 to 31 December 2027)*, Attachment 7, Corporate income tax, June 2022, pp. 7-12.

A Shortened forms

Shortened form	Extended form
AER	Australian Energy Regulator
APA / APA VTS	APA VTS Australia (Operations) Pty Ltd and APA VTS Australia (NSW) Pty Ltd
ATO	Australian Tax Office
Capex	Capital Expenditure
IT	Information technology
ITAA	Income Tax Assessment Act 1997
NGR	National Gas Rules
Opex	Operating Expenditure
PTRM	Post-tax revenue model
TAB	Tax asset base
RFM	Roll forward model
RIN	Regulatory Information Notice
VTS	Victorian Transmission System